HOUSING MARKET OUTLOOK
Regina CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Housing starts to increase in 2012, moderate in 2013

Following a 26 per cent gain to 1,694 units in 2011, total housing starts in the Regina Census Metropolitan Area (CMA) are on pace for another strong performance this year. Successive years of solid job growth, heightened net migration, and low mortgage rates are supporting demand for new housing across the region. Added to this, public sector incentives in the form of first-time homebuyer tax credits and financial incentives designed to augment rental supply, will contribute to elevated new home construction. In response, local home builders are expected to start 2,800 units in 2012, up 65 per cent from

Figure 1

Source: CMHC, CMHC Forecast (f)

Table of Contents

1 New Home Market
3 Resale Market
4 Rental Market
5 Economic Overview
6 Mortgage Rate Overview
7 Forecast Summary

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*The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 17, 2012.

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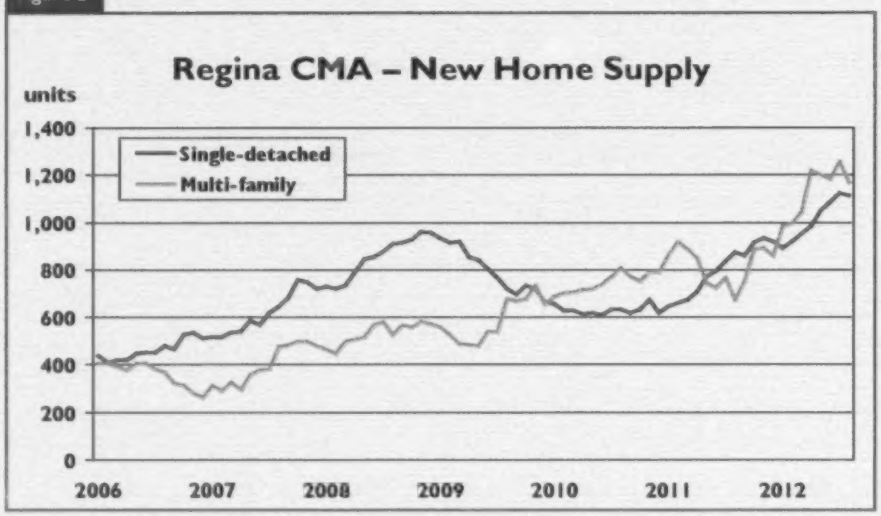
the prior year. While similar factors will support demand moving forward, elevated new home supply will compel regional builders to temper the pace of production. As a result, total starts will decline 18 per cent in 2013 to 2,300 units.

Regina's builders have made impressive increases in 2012. To the end of August, housing starts in the CMA totalled 1,936 units, double the pace set in 2011. The gain was particularly evident in the multi-family housing category, where starts after eight months are up significantly from corresponding levels in 2011. Over the balance of the year, however, continued price pressures along with an elevated supply of new units will inhibit growth moving forward. As well, a slower pace of resale price growth is expected next year. This, in conjunction with the wide choice of listings in the competing resale market, will prompt some prospective buyers to turn to an existing unit to meet their housing needs.

Single-detached starts to remain elevated through 2013

Full-time job growth, continued wage gains, and strong levels of net migration are supporting single-detached construction this year. Following 958 single-detached starts in 2011, home builders in Regina are on pace to construct 1,300 homes this year, an increase of 36 per cent. In 2013, single-detached starts will remain elevated, yet moderate slightly. Continued employment growth and net migration will maintain heightened demand in 2013. Resale price gains will also support demand for new homes as homeowners take advantage of the increased equity in their existing homes and purchase new units with more amenities. On the downside, however, rising supply levels and the risk of rising inventories will prompt builders to scale back production to 1,200 units in 2013.

Figure 2



Source: CMHC

To the end of August, 861 single-detached starts were recorded, up 41 per cent from the corresponding period in 2011. This has contributed to the high levels of supply, which will slow the pace of construction moving forward. At the end of August, units under construction and those in inventory totalled 1,114 units, among the highest on record and 27 per cent higher than the previous year.

New house price pressures to ease in2013

In 2011, Statistics Canada's New House Price Index (NHPI), which measures the difference in the price of new homes where the specifications remain the same between two consecutive periods, recorded a five per cent year-over-year increase for Regina. Given continued increases in housing starts and subsequent gains in the volume of units under construction, similar price pressures are being witnessed this year. With the number of units under construction recently reaching the highest level since 1976, upward pressure on labour costs continues fuelling increases in the house component of the NHPI. However, given the heightened demand for newly developed lots this year, Regina's land component continues to account for the bulk of the price gains in 2012. Moving forward, a reduction in housing starts and declining under construction levels should help ease some of these pressures moving forward. As a result, the NHPI in Regina is anticipated to expand by 3.5 per cent in 2013, representing the lowest increase since 2001.

In 2011, increased demand for single-detached homes resulted in a 4.3 per cent gain in average price, reaching $457,947. While the recent pace of growth in the NHPI would support a similar gain in the average absorbed price, year-to-date prices indicate Regina is on pace for little growth this year. To the end of August, the average absorbed price totalled

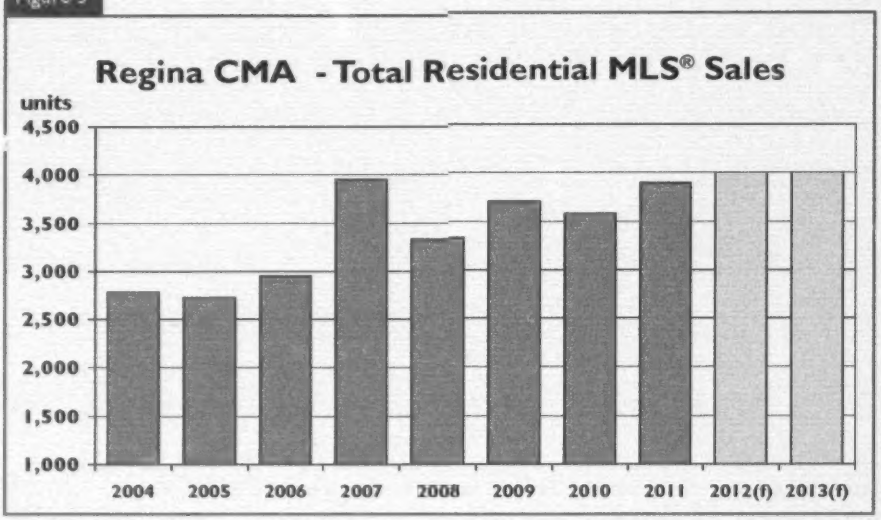
$457,500, down 2.9 per cent from the previous year. This can be attributed to a lower proportion of absorptions in the higher-priced ranges. To the end of August, the share of homes absorbed above $650,000 was 7.8 per cent, down from 10 per cent one year earlier. The movement to higher-priced homes will continue to slow due to increased monthly carrying costs. Given this, the average absorbed price of single-detached homes will rise modestly by recent standards, increasing 1.1 per cent to $463,000 in 2012 and 2.6 per cent to $475,000 next year.

Multi-family starts to rise in 2012, moderate next year

Following a 15 per cent increase to 736 units in 2011, multi-family starts, which consist of semi-detached units, rows, and apartments, will increase to 1,500 units in 2012 before moderating to 1,100 next year. Low apartment vacancy rates, coupled with incentives from multiple levels of government, have fuelled an uptick in rental construction. With 218 rental starts to the end of August, units designated for the rental market accounted for 20 per cent of all multi-family starts so far in 2012.

Demand for ownership units is supported by an expanding population base, particularly from new and existing residents seeking a lower priced option to a single-detached home. As well, first time homebuyers' income tax credits are also supporting multi-family housing demand. Owing to lifestyle advantages for some buyers, apartment and row style condominiums will also remain attractive for Regina's empty-nesters looking to downsize and capitalize on the accumulated equity in their existing homes.

Figure 3



Source: CREA, CMHC Forecast (f)

While demand for multi-family housing will remain strong into 2013, the heightened pace of starts in 2012 has fuelled an increase in the overall supply of units. At the end of August, the supply of multi-family units totalled 1,168 units, among the highest in 30 years. With 1,132 units under construction 82 per cent higher than the previous year, expect inventories to rise in the months ahead. This will be a restraining factor to housing starts in 2013.

RESALE MARKET

MLS® sales to remain elevated through 2013

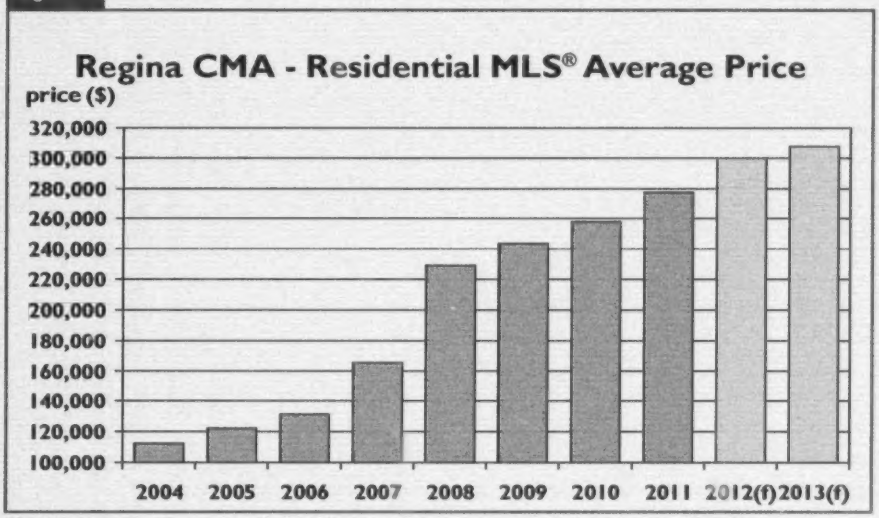
With three consecutive years of strong job creation and heightened levels of net migration, sales of existing homes in Regina are on pace to reach a new high in 2012. After 3,889 sales in 2011, residential transactions are expected to total 4,000 units by year-end, representing an increase of nearly three per cent. In addition to the above factors, resale transactions have been supported by a wide selection of listings and low mortgage rates. At the same time, public sector incentives in the form of first-time homebuyer income tax credits have motivated some households to move to homeownership.

Demand for resale homes is expected to remain elevated in 2013, supported by job and wage growth as well as continuing population gains. Meanwhile, the prevalence of relatively low mortgage rates and price gains will continue to encourage move up buying, as owners take advantage of equity gains from previous years. At the same time, low rental apartment vacancy rates will support additional rent increases and should fast track homeownership decisions by some households. Given these conditions, CMHC expects little change to sales in 2013, with another 4,000 units recorded.

Sales of higher priced homes contribute to rise in average price

Following a 7.5 per cent increase in 2011, existing home prices in Regina are on pace to rise eight per cent this

Figure 4



Source: CREA, CMHC Forecast (f)

year, reaching an average of $300,000. This will be followed by a 2.5 per cent gain to $307,500 in 2013. Price growth this year has been supported by heightened sales relative to supply, as well as shorter listings durations. In the first eight months of 2012, it took an average of 33 days to sell a home in Regina, compared to 37 days one year earlier. The gain in average price has also been supported by a movement of sales to higher price ranges, as homebuyers have taken advantage of low mortgage rates and equity gains from previous years. Recently-constructed higher-priced homes have also impacted the sales mix. The share of sales above $400,000 reached 21 per cent so far this year, up from a 15 per cent share in 2011.

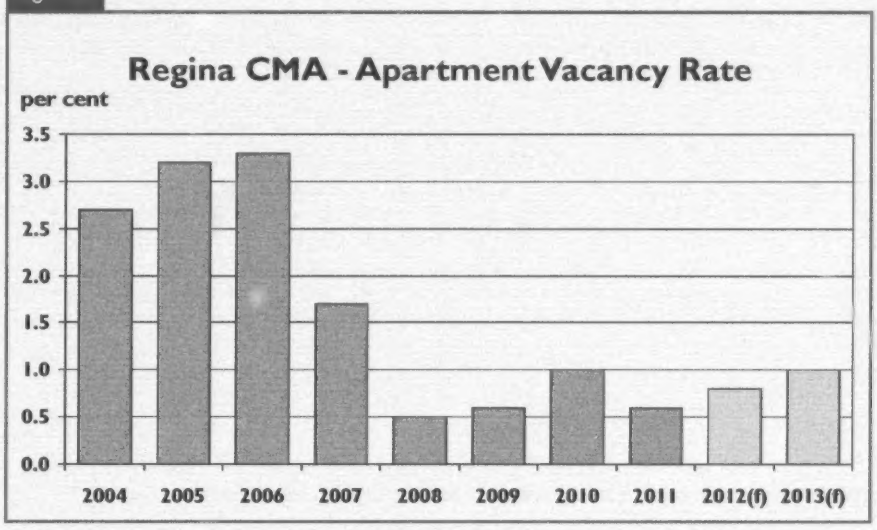
Moving forward, rising carrying costs and a moderating pace of job growth will slow the shift towards higher priced homes. An elevated supply of resale homes will also ensure that price growth is modest by historical standards. In the first eight months 2012, active listings averaged 1,263 units, three per cent lower than the previous year. In 2013, active listings are expected to rise as existing owners list their homes to lock-in equity gains and move up in the resale market or purchase a new home. On balance, these factors will relieve some of the upward price pressure that would otherwise result from 4,200 sales next year.

RENTAL MARKET

Apartment vacancy rate to remain low

Regina's expanding economy and employment prospects will maintain a steady inflow of migrants to the region, keeping rental apartment vacancy rates low over the next two years. The apartment vacancy rate is expected to rise slightly to 0.8 per cent in October 2012, up from 0.6 per cent a year prior. This will be followed by a 1.0 per cent vacancy rate in October 2013. Continued competition from the secondary rental market combined with additions to the apartment rental universe via new construction will contribute to the modestly higher vacancy rates. More than 300 rental units have been completed in Regina since the October 2011 survey. Meanwhile, there were 162 rental units under varying phases of construction at the end of August, further adding to the rental supply once they reach completion. Additional competition will come indirectly via condominiums

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

being rented. CMHC's October 2011 Rental Market Survey revealed that 23 per cent of all condominium apartments made their way into the secondary rental market, up from 15 per cent a year prior.

Average apartment rents to increase through 2013

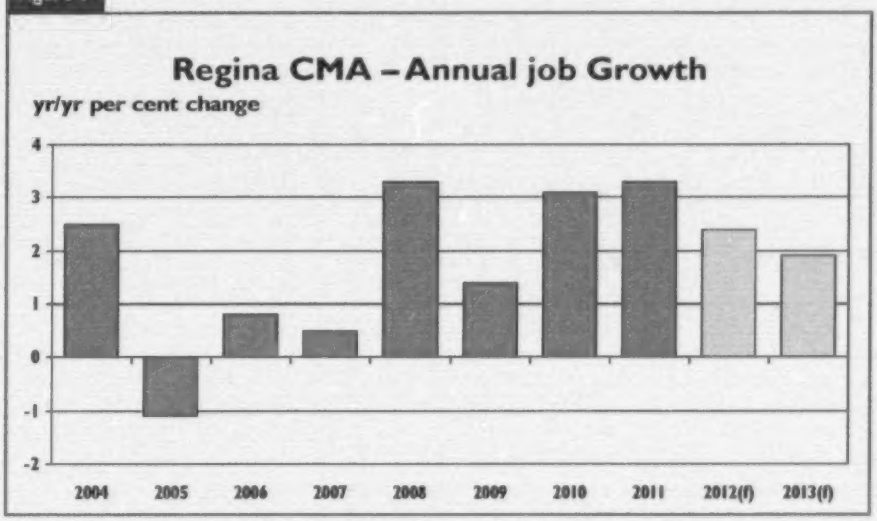
Despite the gradual increase in the apartment vacancy rate, Regina's expanding population and continued job growth will help ensure that demand for rental accommodation remains strong over the forecast period. This will support increases in average apartment rents, as will the addition of newly constructed units which typically rent at a premium compared to existing product. Hence, following a $51 increase in monthly rents in October 2011, the monthly rent for a two-bedroom apartment is forecast to increase $38 to an average of $970 in the October 2012 survey. Next year, buoyed by further additions of new rental units at higher price points, the average monthly rent for a two-bedroom apartment is projected to reach $1,010.

ECONOMIC OUTLOOK

Employment expansion to continue through 2013

Two consecutive years of job growth in excess of three per cent has helped support housing demand this year. In 2012, average employment is on pace to expand by 2.4 per cent, representing the addition of nearly 3,000 jobs. As was the case in previous years, the majority of positions created will be full-time. Given the region's low unemployment rate, employers will continue to promote part-time staff to full-time. To the end of August, the unemployment rate averaged just over four per cent, contributing to gains in net migration and average weekly earnings.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

Elevated oil prices will help boost capital spending over the forecast period. Major capital projects currently include the on-going $1.9 billion refinery expansion, which will be completed and boost output in the latter half of 2012. Other major projects include the recently-announced 33,000 seat stadium to house the Saskatchewan Roughriders. Construction of the $278 million stadium is scheduled to begin in 2013, supporting the economic expansion and growth in construction employment.

Tempering some of the optimism is the persistently high Canadian dollar which could restrain exports to Saskatchewan's primary export market, the United States. Meanwhile, heightened inventories for natural gas and potash are a risk to these resource prices, prompting supply management of these commodities. Further delays in the development of a new potash mine southeast of Regina could also slow the pace of economic expansion. On balance, these factors will contribute to a 1.9 per cent gain in employment in 2013. This will ensure earnings growth continues and the unemployment rate remains among the lowest in Canada.

Net migration expected to remain elevated through 2013

Following modest reductions in 2010 and 2011, net migration is expected to record a large gain in 2012 and remain elevated in 2013. The Saskatchewan Immigrant Nominee Program (SINP) will continue to contribute to a heightened flow of international migrants. Meanwhile, the region's low unemployment rate and job opportunities will ensure that Regina remains an attractive destination for migrants from other centres. As a result, net migration to the Regina CMA is forecast to total 4,800 people in 2012 with a similar level of 4,650 migrants in 2013.

MORTGAGE RATES

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Regina CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	3,704	3,581	3,899	4,000	2.6	4,000	0.0
MLS® New Listings	6,219	6,146	6,301	6,400	1.6	6,600	3.1
MLS® Average Price ($)	244,087	258,023	277,473	300,000	8.1	307,500	2.5
New Home Market							
Starts:							
Single-Detached	569	708	958	1,300	35.7	1,200	-7.7
Multiples	361	639	736	1,500	103.8	1,100	-26.7
Starts - Total	930	1,347	1,694	2,800	65.3	2,300	-17.9
Average Price ($):							
Single-Detached	382,043	418,979	457,947	463,000	1.1	475,000	2.6
Median Price ($):							
Single-Detached	371,438	409,016	417,651	430,000	3.0	442,000	2.8
New Housing Price Index (% chg.)	5.6	5.2	5.0	4.9	-	3.5	-
Rental Market							
October Vacancy Rate (%)	0.6	1.0	0.6	0.8	-	1.0	-
Two-bedroom Average Rent (October) ($)	832	881	932	970	-	1,010	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	115,300	118,900	122,800	125,700	2.4	128,100	1.9
Employment Growth (%)	1.4	3.1	3.3	2.4	-	1.9	-
Unemployment rate (%)	4.3	4.7	4.7	4.4	-	4.4	-
Net Migration	3,585	3,094	2,856	4,800	68.1	4,650	-3.1

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 17, 2012.

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